

Bazalgette Finance plc

Annual report and financial statements

For the year ended 31 March 2017

Registered number 09698014

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Directors and advisors

Directors holding office

Moira Turnbull-Fox (resigned 2 September 2016)

Jaroslava Korpancova

Alistair Ray

Angela Roshier (appointed 2 September 2016)

Gavin Tait

Company Secretary

Tracey Lee-Lewis

Registered office

The Point

37 North Wharf Road

London

W2 1AF

Independent auditor

KPMG LLP

15 Canada Square

London

E14 5GL

Strategic report

The Directors present their Strategic report for Bazalgette Finance plc for the year ended 31 March 2017.

Business review

Bazalgette Finance plc (the Company) operates for the sole purpose of raising finance on behalf of the Company's sister company, Bazalgette Tunnel Limited, for the purposes of Bazalgette Tunnel Limited's licenced activities and functions as the infrastructure provider for the design and construction of the Thames Tideway Tunnel.

The Company is a wholly owned subsidiary of Bazalgette Holdings Limited, which is in turn a wholly owned subsidiary of Bazalgette Ventures Limited, which is in turn a wholly owned subsidiary of Bazalgette Equity Limited, the ultimate holding company of the Bazalgette Equity Group (the Group).

In May 2016, the Company issued share capital of 49,999 £1 ordinary shares which were subscribed to by its parent company Bazalgette Holdings Limited.

In June 2016, the Company issued bonds totalling £350m, marking the Company's debut in the capital markets. A further £100m bond was issued in December 2016. In total, the Company has issued eight series of bonds and entered into agreements with a range of investors (the Deferred Bond Purchasers) to purchase the bonds. The bonds have deferral periods of two to five years and maturities from 2040 to 2054. The financing is innovative in applying the deferred purchase structure to a regulated utility company in the sterling market. This structure enabled the Group to de-risk its finance plan and secure the best possible borrowing terms, by locking in committed debt funding at current market rates and managing negative carry costs associated with pre-funding.

The Company will on-lend the proceeds of the deferred purchase bonds to Bazalgette Tunnel Limited when it receives the relevant proceeds from the Deferred Bond Purchasers on the future settlement dates. This will be through a series of Issuer Borrowing Loan Agreements (IBLAs) which the Company has entered into with Bazalgette Tunnel Limited.

Fees and costs associated with the placement of the deferred purchase bonds were borne by Bazalgette Tunnel Limited.

Results and performance

The Company has recorded £nil profit for the year (8 month period ended 31 March 2016: £nil). The Company's net assets were £50,000 (2016: £1).

Principal risks and uncertainties

The Company acts as a vehicle for the raising of finance on behalf of Bazalgette Tunnel Limited and does not carry out any activities beyond this. The Group's treasury operations are managed by a specialist team who operate with delegated authority from and under policies approved by the Directors.

Counterparty risk exists in relation to the Company's financing activities. The Company has entered into a number of agreements with the Deferred Bond Purchasers, under which there are long deferral periods for the purchase dates. The Company is therefore exposed to the credit risk of such counterparties on whom it relies to provide funds on the pre-agreed dates. The Company evaluates counterparty risk prior to entering into such transactions, and manages concentration risk in respect of deferred funding commitments. As part of its risk management, the Company has agreed information requirements and covenants with some of the Deferred Bond Purchasers, and the Company monitors on an ongoing basis the Deferred Bond Purchasers' ability to honour their obligations, allowing it to assess any potential liquidity exposure in advance of settlement dates, and to make alternative funding arrangements as necessary.

As part of its financing arrangements to on-lend the proceeds of the deferred bonds, the Company has entered into IBLAs with Bazalgette Tunnel Limited. The Company is therefore at risk of not being able to service the debt commitments to the Deferred Bond Purchasers should Bazalgette Tunnel Limited fail to honour its obligations under the IBLAs.

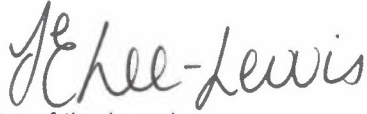
The Company has limited capitalisation and is therefore reliant on the support of the Bazalgette Holdings Group to meet any liabilities as they fall due.

Strategic report (continued)

Future outlook

The Company is expected to continue to act on behalf of the Company's sister company Bazalgette Tunnel Limited for the purpose of providing finance.

This Strategic report was approved by the Board of Directors on 15 June 2017 and signed on its behalf by:

A handwritten signature in black ink that reads "T Lee-Lewis". The signature is written in a cursive, flowing style.

By order of the board
Tracey Lee-Lewis
Company Secretary

Directors' report

The Directors present their report and the audited financial statements for year ended 31 March 2017.

The registered company number is 09698014.

Results and dividend

During the year ended 31 March 2017 the Company reported £nil profit (8 month period ended 31 March 2016: £nil). The Directors do not intend to recommend a dividend for the year (8 month period ended 31 March 2016: £nil).

Directors

The Directors serving during the year, and thereafter, are as follows:

Moira Turnbull-Fox	(resigned 2 September 2016)
Jaroslava Korpancova	
Alistair Ray	
Angela Roshier	(appointed 2 September 2016)
Gavin Tait	

Directors' insurance and third party indemnity

The Bazalgette Holdings Group of which the Company is a subsidiary, operates a directors and officers insurance. There were no provisions for third party indemnities (2016: none).

Employees

The Company has no employees (2016: none).

Charitable and political contributions

The Company made no charitable donations during the year (8 month period ended 31 March 2016: £nil).

The Company made no political donations nor incurred any political expenditure during the year (8 month period ended 31 March 2016: £nil).

Events occurring after the reporting period

No events occurred after the reporting period that would require disclosure in these financial statements.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors is aware of that information.

Auditor

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

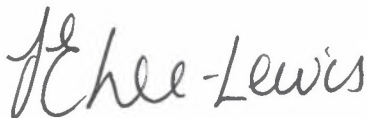
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Tracey Lee-Lewis
Company Secretary

The Point
37 North Wharf Road
London
W2 1AF

15 June 2017

Independent auditor's report to the members of Bazalgette Finance plc

We have audited the financial statements of Bazalgette Finance plc for the year ended 31 March 2017 set out on pages 9 to 16. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**Independent auditor's report to the members of Bazalgette Finance plc
(continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London
E14 5GL
15 June 2017

Income Statement
 For the year ended 31 March 2017

	<i>Note</i>	2017 £	8 month period ended 31 March 2016 £
Net operating costs		-	-
Operating result		-	-
Net financing costs		-	-
Result before tax		-	-
Taxation	4	-	-
Result for the year/period		-	-

Statement of Other Comprehensive Income
 For the year ended 31 March 2017

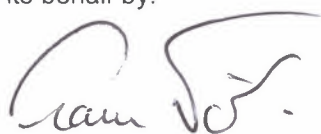
	<i>Note</i>	2017 £	8 month period ended 31 March 2016 £
Result for the year/period		-	-
Other comprehensive income for the year/period		-	-
Total comprehensive income for the year/period		-	-

The notes 1 to 9 form an integral part of these financial statements.

Statement of Financial Position
As at 31 March 2017

	<i>Note</i>	2017 £	2016 £
Non-current assets		-	-
Current assets			
Trade and other receivables	5	-	1
Cash and cash equivalents	6	50,000	-
		<hr/>	<hr/>
Total assets		50,000	1
		<hr/>	<hr/>
Creditors: amounts falling due within one year		-	-
		<hr/>	<hr/>
Net current assets		50,000	1
		<hr/>	<hr/>
Non-current liabilities		-	-
		<hr/>	<hr/>
Net assets		50,000	1
		<hr/>	<hr/>
Total equity	8	50,000	1
		<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the Board of Directors on 15 June 2017 and were signed on its behalf by:



Gavin Tait
Director
Company registered number: 09698014

The notes 1 to 9 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital £	Total equity £
Balance at 22 July 2015	-	-
Result for the period	-	-
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income for the period	-	-
Transactions with owners recorded directly in equity:		
Issue of shares	1	1
	<hr/>	<hr/>
Total contributions by and distributions to owners	1	1
	<hr/>	<hr/>
Balance at 31 March 2016	1	1
	<hr/> <hr/>	<hr/> <hr/>
Balance at 1 April 2016	1	1
Result for the year	-	-
Other comprehensive income	-	-
	<hr/>	<hr/>
Total comprehensive income for the year	-	-
Transactions with owners recorded directly in equity:		
Issue of shares	49,999	49,999
	<hr/>	<hr/>
Total contributions by and distributions to owners	49,999	49,999
	<hr/>	<hr/>
Balance at 31 March 2017	50,000	50,000
	<hr/> <hr/>	<hr/> <hr/>

The notes 1 to 9 form an integral part of these financial statements.

Cash Flow Statement
For the year ended 31 March 2017

	<i>Note</i>	2017 £	8 month period ended 31 March 2016 £
Cash flows from operating activities before working capital movements			
Decrease/(increase) in trade and other receivables	5	1	(1)
Cash used in operations		<u>1</u>	<u>(1)</u>
Net cash used in operating activities		<u>1</u>	<u>(1)</u>
Cash flows from financing activities			
Proceeds from the issue of share capital	8	49,999	1
Net cash from financing activities		<u>49,999</u>	<u>1</u>
Net increase in cash and cash equivalents during the year/period		<u>50,000</u>	-
Cash and cash equivalents at the beginning of the year/period		-	-
Cash and cash equivalents at the end of the year/period	6	<u><u>50,000</u></u>	<u><u>-</u></u>

The notes 1 to 9 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Basis of preparation

Bazalgette Finance plc (the Company) is a private company incorporated, domiciled and registered in the UK. The registered number is 09698014 and the registered address is The Point, 37 North Wharf Road, London, W2 1AF.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

These financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs).

The Company is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. The transition to Adopted IFRSs from FRS 101 did not have an effect on the reported financial position and financial performance of the Company as reported in previous years.

Where items are sufficiently significant by virtue of their size or nature, they are disclosed separately in the financial statements in order to aid the reader's understanding of the Company's financial position.

In the process of applying the Company's accounting policies, the Directors are required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The preparation of financial statements requires the use of certain critical accounting estimates. The Directors do not believe there are any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

The Company's parent undertaking Bazalgette Holdings Limited includes the company in its consolidated financial statements. The consolidated financial statements of Bazalgette Holdings Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the address disclosed in note 9.

Measurement convention

The financial statements are prepared in accordance with the historical cost accounting convention.

Going concern

The Directors have undertaken a detailed review to assess the liquidity requirements of the Company compared against the cash and facilities available to the Company and have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements.

Financial instruments

Financial assets and liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) are classified as either derivative or non-derivative financial instruments. Derivative financial instruments comprise financial liabilities designated at fair value through profit or loss. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group determines the classification of financial instruments at initial recognition and re-evaluates this designation at each financial year end. The initial and subsequent measurement of financial instruments depends on their classification as follows:

Notes to the financial statements (continued)

1 Accounting policies (continued)

Financial instruments (continued)

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand balances and short term deposits with a maturity at acquisition of three months or less. Cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

Short term cash deposits disclosed in the Statement of Financial Position comprise cash deposited with a maturity of greater than three months on acquisition, a fixed interest rate and which do not constitute cash equivalents under IAS 7 'Statement of cash flows'.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest rate method whereby interest costs are charged to the Income Statement and added to the carrying value of the borrowings at a constant rate in proportion to the amount outstanding.

Deferred purchase bonds

No financial asset or liability is recorded on the initial issue date. The commitment to issue the bonds on the investor settlement date is accounted for as a loan commitment and thus as an executory contract it falls outside the scope of IAS 39. As a result there is no Income Statement impact from any movements in their fair value between the initial issue date and the deferred investor settlement date.

Taxation

Tax on the profit or loss for the year comprises the current tax charge or credit for the year. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Recently issued accounting standards

At the date of authorisation of these financial statements, the Company has not applied the following new and revised IFRS's that have been issued but are not yet effective and in some cases are subject to endorsement by the EU.

- IFRS 9 Financial Instruments (effective date 1 January 2018);
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018);
- IFRS 16 Leases (effective date 1 January 2019);
- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (effective date 1 January 2017); and
- Disclosure Initiative - Amendments to IAS 7 (effective date 1 January 2017).

The Company is currently undergoing an assessment of the impact of these standards ahead of their future adoption.

Notes to the financial statements (continued)

2 Auditor's remuneration

The auditor's remuneration for the audit of these financial statements was £2,000 (8 month period ended 31 March 2016: £2,000), and was borne wholly by Bazalgette Tunnel Limited.

3 Remuneration of Directors

The Directors of Bazalgette Finance plc did not receive any payments for their services during the year (8 month period ended 31 March 2016: £nil).

4 Taxation

Recognised in the Income Statement

The tax charge for the year ended 31 March 2017 was £nil (2016: £nil).

Reconciliation of effective tax rate

In the year ended 31 March 2017 there were no reconciling items (2016: none) between the tax charge for the year and the tax charge using the UK corporation tax rate of 20% (2016: 20%).

5 Trade and other receivables

	2017 £	2016 £
Amounts owed by Group undertakings	-	1
	<u>-</u>	<u>1</u>
	<u>-</u>	<u>1</u>

6 Cash and cash equivalents

	2017 £	2016 £
Cash and bank balances	50,000	-
	<u>50,000</u>	<u>-</u>
Cash and cash equivalents per cash flow statement	<u>50,000</u>	<u>-</u>

7 Borrowings

Deferred purchase bonds

In the year ended 31 March 2017, the Company has issued deferred purchase bonds totalling £450m and entered into agreements with a range of Deferred Bond Purchasers to purchase the bonds. The bonds have deferral periods of two to five years with maturities from 2040 to 2054. The bonds will be recognised on the Statement of Financial Position at the future settlement dates which are when the bond proceeds are received by the Company.

The Company will on-lend the proceeds of the deferred purchase bonds issuance to its sister company Bazalgette Tunnel Limited when it receives the relevant proceeds from the Deferred Bond Purchasers on the future settlement dates. This will be through a series of Issuer Borrowing Loan Agreements (IBLAs) which the Company has entered into with Bazalgette Tunnel Limited.

Notes to the financial statements (continued)

8 Called-up share capital

Allotted, called-up and fully paid ordinary shares of £1 each	Ordinary shares 2017 No.	Ordinary shares 2016 No.
At the beginning of the year/period	1	-
Issued for cash	49,999	1
At the end of the year/period	50,000	1

During the year 49,999 ordinary shares with a nominal value of £1 each were issued and subscribed to by the parent company, Bazalgette Holdings Limited. Each share ranks equally for voting purposes for any dividend declared and distribution rights on a winding up.

9 Immediate and ultimate parent company of a larger group

The Company is a wholly owned subsidiary of Bazalgette Holdings Limited (incorporated in the United Kingdom).

The Directors consider Bazalgette Equity Limited, (incorporated in the United Kingdom) to be the ultimate parent company. The smallest group in which the Company is incorporated is Bazalgette Holdings Limited. The largest group in which the results of the Company are consolidated is that headed by Bazalgette Equity Limited. No other group financial statements include the results of the Company.

Copies of consolidated financial statements of Bazalgette Equity Limited and Bazalgette Holdings Limited can be obtained from the Company Secretary at The Point, 37 North Wharf Road, London, W2 1AF.

